

REPORT OF
FINANCIAL EXAMINATION
HEALTHCARE USA OF MISSOURI, LLC



AS OF
DECEMBER 31, 2003
STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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July 1, 2004
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
Chairman, (EX 4) Financial Condition Subcommittee, NAIC

Honorable Sally McCarty, Commissioner
Indiana Department of Insurance
Secretary, Midwestern Zone, NAIC

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Lady and Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Healthcare USA of Missouri, LLC

hereinafter referred to as such or as "HCUSA" or as the "Company." The Company's home office is located at 10 South Broadway, Suite 1200, St. Louis, Missouri 63102, telephone number (314) 444-7276. This examination began on May 10, 2004 and concluded on July 1, 2004.

SCOPE OF EXAMINATION

Period Covered

The last full scope association financial examination of the Company was made as of December 31, 2000, by examiners from the state of Missouri representing the Midwestern Zone

of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2001, through December 31, 2003, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included material transactions and/or events occurring subsequent to December 31, 2003.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed.

The Missouri Department of Insurance engaged an independent actuary, Karen E. Elsom, FCAS, MAAA, with Lewis & Ellis, Inc., to perform a review of the Company's reserve calculations and reserving methodologies.

Comments - Previous Examination

Listed below are the comments and recommendations taken from the prior Report of Financial Examination made as of December 31, 2000. The responses or actions taken by the Company are also described below.

1. Comment: History (Management)

The Company was directed to either amend the Operating Agreement to reflect the current operating environment regarding the number of members of the board of managers, or comply with its existing Operating Agreement.

Company Response:

“The Operating Agreement will be amended.”

Current Findings:

The Company amended the Operating Agreement in August 2001 and again in September 2002. The Agreement now states that the number of members of the Board of Managers shall be between 3 and 15. The Company maintained compliance with this requirement throughout the examination period.

2. Comment: History (Corporate Records)

The prior examination noted occasions where the board of manager’s written consent in lieu of meeting did not contain all of the manager’s signatures. The Company was directed to adhere to its Operating Agreement regarding written consents in lieu of board of manager meetings, which requires unanimous consent in lieu of meetings.

Company Response:

“The Company will adhere to the Operating Agreement regarding future written consents in lieu of meetings.”

Current Findings:

The Company obtained unanimous signatures on all written consents in lieu of meetings during the current period under examination.

3. *Comment: History (Corporate Records)*

It was noted that the Company did not file affidavits executed by each member of the board of managers stating under oath that they have reviewed a copy of the Report of Financial Examination and related orders made as of December 31, 1997, within thirty days of the issuance of the report, as required by Section 374.205.3(4) RSMo (Examination of insurers).

Company Response:

“Upon issuance of the Examination Report as a public document, the Company will file, within thirty days, affidavits executed by each member of the Board of Managers stating under oath that they have reviewed a copy of the adopted report and related orders as required by Section 374.205.3(4) RSMo (Examination of Insurers).”

Current Findings:

The board of managers filed the appropriate affidavits following the issuance of the Report of Financial Examination made as of December 31, 2000.

4. *Comment: Reinsurance (Ceded)*

The Company entered into an Insolvency Continuation and Conversion Agreement with affiliate Coventry Health and Life Insurance Company effective April 1, 1999, in order to comply with Section 354.410.1(6) RSMo (issuance of certificates; trust deposits and capital requirements). This agreement provided that Coventry will continue the plan benefits in the event that HCUSA becomes insolvent or ceases operations, subject to a maximum liability of \$5.0 million. When Coventry terminated this agreement effective May 31, 2001, it violated the above referenced Missouri statute. It was recommended that the Company comply with Section 354.410.1(6) RSMo.

Company Response:

“The Insolvency Continuation and Conversion Agreement with affiliate Coventry Health and Life Insurance Company was terminated effective May 31, 2001 to comply with requirements of the Delaware Department of Insurance. Coventry is a Delaware corporation. Coventry’s legal counsel is researching ways for HealthCare USA to comply with Section 354.410.1(6) RSMo. As soon as the method of compliance has been determined, HealthCare USA will notify the Missouri Department of Insurance.”

Current Findings:

HCUSA only writes Medicaid business in the state of Missouri. The purpose of Section 354.410.1(6) RSMo is to prevent members from losing coverage and becoming uninsurable due to a health maintenance organization’s insolvency. Under Missouri’s Medicaid program, member’s coverage would be transferred to another health maintenance organization during the following Medicaid contract period in the event of HCUSA’s insolvency. In addition, HCUSA and Coventry Health Care, Inc. (CHC) have entered a Guarantor Agreement effective January 1, 2001. This agreement stipulates that CHC agrees to pay all expenses and claims incurred by HCUSA in the event of HCUSA’s inability to pay any amount payable including any amounts due to insolvency or discontinuance of business through the remainder of the most current Medicaid contract with the state of Missouri.

HISTORY

General

The Company was organized under the Missouri Limited Liability Company Act (Missouri LLC Act) on January 31, 1995, and was licensed as a health maintenance organization (HMO) on July 17, 1995. In September 1995, the Company was awarded a contract by the state of Missouri Department of Social Services, Division of Medical Services (DSS/DMS) to provide services to the Medicaid population in the city of St. Louis and the four surrounding counties. In 1996, the Company was awarded an additional contract to serve the Medicaid population in the central Missouri region, and in 2002, the Company was awarded a contract to serve the western Missouri region.

The Company was organized by HealthCare USA Midwest, Inc. (HCUSA-Midwest), which held a 70% equity interest, and SLR Managed Care Corporation (SLR), which held the remaining 30% equity interest. Effective January 1, 1996, HCUSA-Midwest purchased SLR's 30% equity interest in HCUSA for \$1,467,807.

Capital Stock

The Company is organized under the Missouri LLC Act and, therefore, is not authorized to issue capital stock. Capital contributed by HCUSA-Midwest was \$7,042,055 as of December 31, 2003.

Dividends

The Company has declared and paid dividends to shareholders as follows:

	<u>Cash</u>
2000	\$ 700,000
2001	1,500,000
2002	6,000,000
2003	<u>9,000,000</u>
Total	<u>\$17,200,000</u>

Management

The Board of Managers consists of four managers appointed pursuant to the Company's Operating Agreement. Managers appointed and serving as of December 31, 2003, were as follows:

<u>Name</u>	<u>Location</u>	<u>Business Affiliation</u>
Ancelmo E. Lopes	St. Louis, MO	HCUSA President & CEO
Thomas P. McDonough	Bethesda, MD	Coventry Health Care, Inc. Chief Operating Officer
Dale B. Wolf	Bethesda, MD	Coventry Health Care, Inc. Executive Vice President & CFO / HCUSA Executive Vice President & Asst Treasurer
Allen F. Wise	Bethesda, MD	Coventry Health Care, Inc. President & CEO

The officers appointed and serving as of December 31, 2003, were as follows:

<u>Name</u>	<u>Office</u>
Ancelmo E. Lopes	President
Thomas P. McDonough	Executive Vice President
Dale B. Wolf	Executive Vice President & Assistant Treasurer
Larry Jones, M.D.	Vice President & Medical Director
Linda Whaley	Vice President – Health Services

John J. Ruhlman	Corporate Controller
**	Treasurer
Jennifer K. Handshy	Secretary & Director of Accounting
John J. Stelben	Assistant Secretary & Assistant Treasurer
Shirley R. Smith	Assistant Secretary

** - The office of Treasurer has been vacant since early 2003. The Assistant Treasurer and Corporate Controller are currently fulfilling the duties of the Treasurers office. It is recommended that the Company comply with Section 5.10.5 of its Amended and Restated Operating Agreement by appointing someone to fill the office of Treasurer.

Conflict of Interest

Conflict of interest disclosure statements are executed annually by all Board Managers and officers. In addition, all employees are required to comply with the Coventry Health Care Compliance and Ethics Program enacted to ensure that business is conducted "with the highest standards of ethical conduct." A review of the 2003 statements indicated no material conflicts.

Corporate Records

The Articles of Organization and the Operating Agreement were reviewed. As stated above, the Operating Agreement was amended in 2001 and 2002 to update the number of members on the board of managers. Additional modifications were also included in these amendments that were not considered material to this examination. The Articles of Organization were not amended during the period under examination.

The minutes of the meetings of the Shareholder and Board of Managers were reviewed for the period under examination. The minutes of the meetings appear to reflect proper approval of the transactions and corporate events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

None

Surplus Debentures

The Company does not have any surplus debentures issued or outstanding.

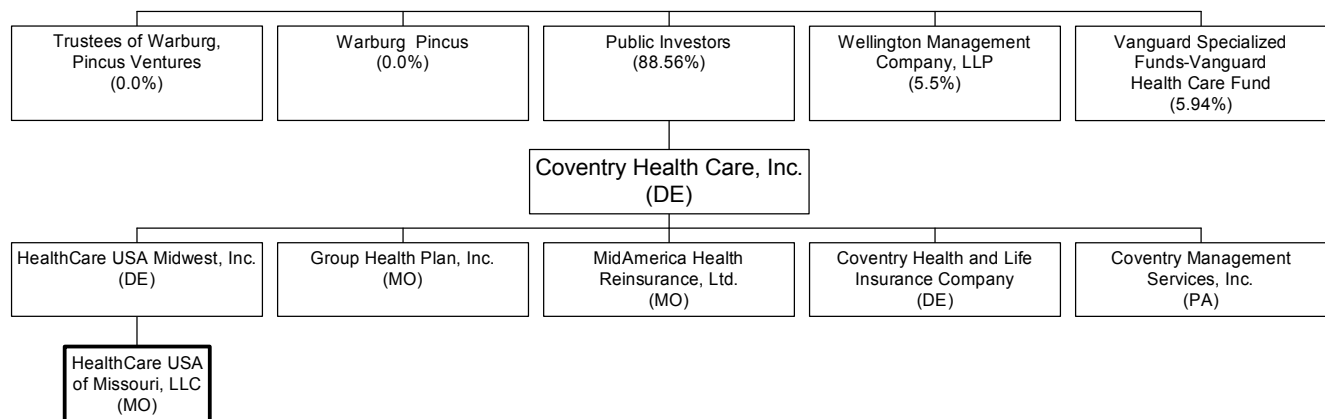
AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

The Company, a Medicaid-only health maintenance organization, domiciled in the state of Missouri and wholly owned by HealthCare USA Midwest, Inc., is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The Company filed Insurance Holding Company System Registration Statement Form B and Form C with the Missouri Department of Insurance for the years under examination.

Organizational Chart

The following is a portion of the entire Coventry Health Care, Inc. organizational chart. Only those companies directly related to HealthCare USA of Missouri, LLC, or with which HCUSA has management or reinsurance contracts, and other Missouri domiciled companies in the group are included. All companies are 100% owned by their immediate parent unless otherwise noted.



Affiliated Transactions

Management Services Agreement

Effective January 1, 2003, the Company became a party to a Management Services Agreement with Coventry Management Services, Inc. (CMS). CMS is a licensed Missouri Third Party Administrator. The agreement stipulates that CMS will provide information systems services and equipment along with certain service center services (including claims processing, premium billing, member services and benefit and contract administration). HCUSA pays a monthly fee of \$3.40 per member per month for information systems equipment and services and \$3.50 per member per month for service center services provided by CMS. The agreement was properly submitted to the Missouri Department of Insurance who determined that the fees charged under this agreement were fair and reasonable.

The Company is also party to a Management Services Agreement with Coventry Health Care, Inc. effective January 1, 1999. The agreement as amended January 1, 2003, stipulates that Coventry Health Care, Inc. will provide the following services:

senior management	advertising	marketing
public relations	purchasing	pharmacy
corporate and legal	regulatory compliance	governmental affairs
accounting	tax compliance & consulting	facilities management
risk management	human resources consulting	payroll

Effective January 1, 2003, HCUSA pays Coventry Health Care, Inc. a fixed charge of \$2.95 per member per month for providing services under this agreement, limited to 12% of the premiums collected by HCUSA. On January 30, 2003, the Missouri Department of Insurance issued a letter stating that they had reviewed the amended agreement with Coventry Health Care, Inc. and had no intention of disapproving the transaction. Previous to the January 1, 2003, amendment, the Management Services Agreement with Coventry Health Care, Inc. also encompassed the services now provided by Coventry Management Services, Inc. described above. The companies restated the agreements at the request of the Missouri Department of Insurance to distribute the service center and information system services to Coventry Management Services, Inc. (a Missouri licensed Third Party Administrator). The total scope of services provided remained the same, however the amount of the service fees increased from \$9.25 to \$9.85 per member per month.

Income Tax Allocation Agreement

The Company and its affiliates entered into an Income Tax Allocation Agreement effective December 31, 1998. Each of the affiliates of the consolidated group pays a tax liability or receives a tax refund based on a computation as if the affiliate had filed a separate return at the statutory rates. The agreement was properly submitted to the Missouri Department of Insurance who issued a letter on April 27, 1999 stating that the Department had no intention of disapproving this transaction.

Guarantor Agreement

HCUSA and its parent Coventry Health Care, Inc. entered a Guarantor Agreement effective January 1, 2001. This agreement stipulates that CHC agrees to pay all expenses and claims incurred by HCUSA in the event of HCUSA's inability to pay any amount payable including any amounts due to insolvency or discontinuance of business through the remainder of the most current Medicaid contract with the state of Missouri.

Reinsurance Agreement

HCUSA is party to a reinsurance agreement with affiliate Coventry Health and Life Insurance Company, which is described further in the Reinsurance section of this report.

FIDELITY BOND & OTHER INSURANCE

The Company is a named insured on an insurance company crime bond purchased by Coventry Health Care, Inc. That bond provides crime and fidelity coverage with a limit of liability of \$10,000,000 each occurrence and \$20,000,000 aggregate with a \$250,000 deductible. This coverage exceeds the suggested minimum fidelity coverage of \$1,000,000 based on NAIC guidelines.

The Company is also a named insured on the following insurance policies acquired by Coventry Health Care, Inc:

<u>Policy</u>	<u>Limits</u>
General Liability	\$2,000,000 each occurrence \$4,000,000 aggregate
Automobile Liability	\$1,000,000 each occurrence
Workers' Compensation	\$1,000,000 each occurrence
Property	\$30,000,000

Professional Liability	\$5,000,000 each single action \$10,000,000 each class action \$20,000,000 aggregate
Fiduciary Liability	\$5,000,000
Employment Practices Liability	\$10,000,000
Directors and Officers Liability	\$55,000,000

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

At no cost to the employees, HCUSA provides a complete benefit package which includes paid holidays, vacation, and sick leave, term life, accidental death insurance, and short-term and long-term disability insurance. Eligible employees may also purchase health/dental/vision coverage and additional long-term disability insurance and supplemental life insurance.

The Company's employees are eligible to participate in the Coventry Health Care Retirement Savings 401(k) plan. Under the terms of this plan, employees can defer up to 15% of eligible gross pay (maximum of \$12,000 in 2004) on a pre-tax basis. In addition, eligible employees will receive matching contributions in Coventry Health Care, Inc. stock equal to 100% of pre-tax contributions (up to the first 3.0% of an employees' compensation). Coventry matches the next 3.0% of an employee's compensation at the rate of 50% on pre-tax contributions. The matching percentages are subject to change at Coventry's discretion.

Coventry Health Care, Inc. implemented an Employee Stock Purchase Plan in 1994, which allows eligible employees to set aside a portion of their salary for the purchase of Coventry Health Care, Inc. stock. At the end of the plan year, Coventry Health Care, Inc. issues

the stock at the issue price or the lower of 85% of the stock price at the end of the plan year or the average price as defined in the plan.

Coventry Health Care, Inc. also sponsors a Stock Incentive Plan under which shares of Coventry Health Care, Inc. common stock is authorized to key employees, consultants and directors in the form of stock options, restricted stock and other stock-based rewards.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2003, as reflected below, were sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Section 354.410 RSMo "Trust deposits."

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Boonville, MO Bonds	\$180,000	\$179,822	\$179,822
US Treasury Note	<u>\$350,000</u>	<u>\$352,517</u>	<u>\$350,204</u>
TOTALS	<u>\$530,000</u>	<u>\$532,339</u>	<u>\$530,026</u>

Deposits with Other States

The Company did not have funds on deposit with any other states.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is organized as an health maintenance organization in accordance with Sections 354.400 to 354.550 RSMo. The Company only writes Medicaid business in Missouri.

The Medicaid program in Missouri, called Managed Care Plus (MC+), is administered by the Missouri Department of Social Services, Division of Medical Services (DSS/DMS). The DSS/DMS established a managed care program in 1995 that required all Medicaid recipients to enroll in an HMO (if one was available) in order to receive benefits. The DSS/DMS provides membership information to the Company each month. The DSS/DMS also allocates a portion of new enrollees that did not select a plan.

Marketing

The Company's marketing plan is restricted by guidelines established in the Missouri Medicaid Request for Proposal (RFP). All marketing materials must be submitted to the DSS/DMS for approval before they are distributed to prospective enrollees. Direct marketing to individuals is prohibited.

The Company offers services in three regions of the state. The Eastern Region consists of the greater St. Louis metropolitan area and several surrounding counties. The Central Region is made up of several counties in mid-Missouri, generally around Jefferson City and Columbia. The Western Region (added during 2002) consists of an area in and around Kansas City.

Provider Contracts

The Company contracts with various health care providers for the provision of medical services to its members. Primary care physicians are generally compensated on a capitation

basis. Hospitals are compensated for inpatient hospitalization costs on a per diem basis using Medicaid per diem rates or rates established under separate contracts between the individual hospital and the Company.

Rates

Rates are established annually through a bidding process. Health plans are invited to bid on Medicaid business and must meet specific minimum requirements mandated in the Medicaid RFP. The DSS/DMS sets maximum rates that can be charged. Those rates tend to be the benchmark bids. Rates vary depending on age, gender and location of the member.

Grievance Procedures; Quality Assurance; Utilization Review; Provider Credentialing

The Medicaid RFP requires the Company to periodically submit reports containing specific information related to these areas. The reports are submitted to the Missouri DSS/DMS, which is responsible for monitoring the Company's compliance in these areas. There were no significant outstanding issues with the DSS/DMS.

REINSURANCE

General

Premiums reported during the period under examination were as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Direct Business	\$ 217,190,572	\$ 255,781,248	\$ 334,273,134
Reinsurance Assumed	-	-	-
Reinsurance Ceded	<u>3,153,447</u>	<u>4,136,304</u>	<u>6,985,485</u>
Net Premiums Earned	<u>\$ 214,037,125</u>	<u>\$ 251,644,944</u>	<u>\$ 327,287,649</u>

Assumed

The Company did not assume any reinsurance during the period under examination.

Ceded

Effective December 1, 2000, the Company entered into an HMO Excess Risk Reinsurance Agreement with affiliate Coventry Health and Life Insurance Company, a Delaware domestic insurer. This agreement, which was approved by the Missouri Department of Insurance on March 15, 2001, initially covered the Eastern Missouri non-waiver Medicaid members. However, the agreement also began covering the Central Missouri non-waiver members and all of the waiver members on March 1, 2001, and April 1, 2001, respectively.

Under the terms of the reinsurance agreement with Coventry Health and Life Insurance Company, HCUSA cedes 80% of the eligible charges in excess of \$200,000 per Medicaid Member. Eligible charges include inpatient, physician and outpatient claims. Pharmacy claims and capitation payments are excluded from eligible charges. The maximum reinsurance coverage payable is \$1,000,000. In exchange for this coverage, the Company pays a premium to the reinsurer based on the number of Medicaid members in force each month. The contract includes the proper insolvency clause in compliance with 20 CSR 200-2.100(11).

ACCOUNTS AND RECORDS

General

The Company maintains its general ledger on PeopleSoft software. This system operates on a local area network system maintained in the Company's office. Membership data and claim payments are maintained on the IDX system.

Independent Auditor

The Company engaged the CPA firm, Ernst & Young, LLP to perform an independent audit for the years ending December 31, 2002 and 2003. Previously, the CPA firm Arthur Anderson LLP performed the Company's statutory audits. The 2003 audit workpapers and internal control reports were made available for this examination. These workpapers and reports were used in the course of the examination as deemed appropriate.

Independent Actuary

Loss reserves were reviewed and certified by Coventry Health Care, Inc.'s Director of Actuarial Services, Joann M. Hess, FSA, MAAA. Consulting actuary, Karen E. Elsom, FCAS, MAAA, of Lewis & Ellis Inc., was retained by the Missouri Department of Insurance to review the adequacy of reserves and other related liabilities.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2003, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. The failure of any column to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

ASSETS

	<u>Ledger & Non- Ledger Assets</u>	<u>Assets Non-Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 29,233,791		\$ 29,233,791
Cash and short-term investments	1,370,809		1,370,809
Investment income due and accrued	341,104		341,104
Premiums in course of collection	25,598,698		25,598,698
Amounts recoverable from reinsurer	168,685		168,685
Current federal income tax recoverable	881,583		881,583
Net deferred tax asset	722,440	270,935	451,505
EDP equipment	3,293	1,602	1,691
Furniture and equipment	71,802	35,901	35,901
Health care receivable	5,086,924	-	5,086,924
Other assets nonadmitted	<u>906,015</u>	<u>906,015</u>	<u>-</u>
Total Assets	<u><u>\$ 64,385,144</u></u>	<u><u>\$ 1,214,453</u></u>	<u><u>\$ 63,170,691</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<u>Current Year</u>
Claims Unpaid	\$ 30,250,802
Unpaid claims adjustment expenses	750,018
General expenses due or accrued	1,037,348
Amounts withheld or retained for others	18,103
Due to affiliates	142,684
Abandoned property liability	<u>34,689</u>
Total Liabilities	<u>\$ 32,233,644</u>
Gross paid in and contributed surplus	\$ 7,042,055
Unassigned funds (surplus)	<u>23,894,992</u>
Surplus as regards policyholders	<u>\$ 30,937,047</u>
Total Liabilities and Surplus	<u>\$ 63,170,691</u>

STATEMENT OF INCOME

	<u>Current Year</u>
Net premium income	\$ 327,287,649
Grant revenue	<u>80,050</u>
Total Revenues	\$ 327,367,699
 Hospital/medical benefits	 \$ 140,569,002
Emergency room and out-of-area	94,269,392
Prescription drugs	50,081,932
Net reinsurance recoveries	<u>(4,201,507)</u>
Subtotal Hospital and Medical Benefits	\$ 280,718,819
Claims adjustment expenses	7,976,848
General administrative expenses	<u>24,811,847</u>
Total Underwriting Deductions	\$ 313,507,514
 Net Underwriting Gain or (loss)	 \$ 13,860,185
 Net investment income earned	 \$ 1,054,199
Net realized capital gains or (losses)	<u>11,325</u>
Net Investment Gains or (Losses)	\$ 1,065,524
 Net Income or (Loss) Before Federal Income Taxes	 \$ 14,925,709
 Federal and foreign income taxes incurred	 <u>4,793,643</u>
 Net Income (Loss)	 <u>\$ 10,132,066</u>

CAPITAL AND SURPLUS

	<u>Current Year</u>
Surplus as regards policyholders, December 31, 2002	\$ 30,106,884
Net income or (loss)	10,132,066
Change in net deferred income tax	102,241
Change in nonadmitted assets	41,492
SSAP 10 tax corrections	(445,640)
Dividends to stockholders	(9,000,000)
Examination changes	<u>0</u>
Change in surplus as regards policyholders	<u>\$ 830,159</u>
Surplus as regards policyholders, December 31, 2003	<u>\$ 30,937,043</u>

EXAMINATION CHANGES

None

NOTES TO FINANCIAL STATEMENTS

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Management – Office of Treasurer

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The office of Treasurer has been vacant since early 2003. It is recommended that the Company comply with Section 5.10.5 of its Amended and Restated Operating Agreement by appointing someone to fill the office of Treasurer.

SUBSEQUENT EVENTS

There have been no significant subsequent events.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Healthcare USA of Missouri, LLC during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Robert P. Jordan, CFE, examiner representing the Missouri Department of Insurance, participated in this examination. MDI also engaged an independent actuary, Lewis & Ellis, Inc., to perform a review of the Company's reserve calculations and reserving methodology.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Michael R. Shadowens, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Michael R. Shadowens, CFE
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this day of , 2004.

My commission expires:

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

J. Douglas Conley, CFE, FLMI, CIE, AIAF, ARE
Audit Manager, St. Louis
Missouri Department of Insurance
Midwestern Zone, National Assoc. of Ins. Commissioners



September 9, 2004

Kirk Schmidt
Chief Financial Examiner
State of Missouri Department of Insurance
P.O. Box 690
Jefferson City, MO 65102-0690

RECEIVED
SEP 13 2004
MO INS DEPT

Dear Mr. Schmidt:

I am writing in response to the Examination Report of HealthCare USA of Missouri, LLC for the period ending December 31, 2003. We have reviewed the General Comments and/or Recommendations and have included below our response to the following comment:

Comment

The office of Treasurer has been vacant since early 2003. It is recommended that the Company comply with Section 5.10.5 of its Amended and Restated Operating Agreement by appointing someone to fill the office of Treasurer.

Response

The health plan is currently recruiting for a Chief Financial Officer (CFO); upon hiring, the CFO will be appointed as Treasurer. In the meantime, the Assistant Treasurer is fulfilling all Treasurer responsibilities.

This response may be included in the report as a public document.

Sincerely,

David Heitman
President and Chief Executive Officer